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RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

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COMMERCE PASS TO MARKET ACCESS AND COMPLIANCE - BRYAN LOPP

E.O. 12958: N/A

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SUBJECT: KERALA PLANS LAW TO CURB CORPORATE RETAIL GIANTS

REFS: A) CHENNAI 00314 B) 06 CHENNAI 0109 C) 05 CHENNAI 2087

¶1. (SBU) SUMMARY: Kerala's leftist government is drafting a law to curb the entry of large corporations, whether multinational or Indian, into the retail sector. The state's Finance Minister says the law will regulate, not ban, the entry of corporations into the retail sector. Although media contacts say the government is merely paying lip-service to anti-corporate sentiment in the state, enactment of the proposed legislation could spell trouble because it would give local government discretionary authority over retail establishments. Moreover, opponents of organized retail in neighboring Tamil Nadu are looking to Kerala as a model. END SUMMARY.

WE WILL NOT BAN, ONLY REGULATE, SAYS FINANCE MINISTER

¶2. (SBU) Kerala Finance Minister Dr. Thomas Isaac (Protect) confirmed that a bill is in the works to regulate the entry of large corporations into the retail sector. Isaac refuted media reports that Kerala plans to ban retail giants. "It is impossible to ban them," he said, "but we have to regulate the sector to prevent chaos." According to Isaac, Kerala will regulate the location of retail outlets and require businesses to provide adequate infrastructure. The regulations will be enforced through municipal governments. (COMMENT: Local municipal government enforcement of the regulations could prove problematic for multinational retailers. Coca-Cola's difficulties in Kerala (reftels) began when it locked horns with a difficult local government. END COMMENT) Isaac believes retailers will not oppose state-imposed requirements for standard facilities, such as sufficient parking spaces, but acknowledged that using licenses to regulate the location of retail outlets will likely cause major concerns.

¶3. (SBU) Minister Isaac said the government also plans to impose a tax on the major retail companies, from which small traders will be exempt. Furthermore, he said proceeds of the new tax will be used to fund programs to ensure the "welfare" of small traders, as well as to improve municipal infrastructure. He emphasized the tax will be equally applied to Indian and multinational corporations. He said the government will hold a consultative meeting on the threshold limits for such a tax with the state's existing retailers, represented by their organizations including the Kerala Vyapari Vyavasayi Ekopana Samithy (Traders and Industrialists Coordination Council - KVVES).

KERALA MEDIA SAYS IT IS ONLY RHETORIC

¶4. (SBU) Kerala media sources, however, are skeptical about the

government's proposed regulations. They told post the government is mainly going through the motions to appease anti-corporate sentiment in the state. Despite the rhetoric, they said there will be little practical limitation on major retailers' entry into the market, pointing out that Thiruvananthapuram and Kochi have already issued several licenses to corporate retail outlets. In some cases, local leaders from Kerala's ruling Communist Party of India (Marxist), actually inaugurated the new retail outlets. Media contacts also questioned the feasibility of imposing additional taxes on corporate retail outlets, as doing so would conflict with India's value-added tax system.

TAMIL NADU WATCHING KERALA CLOSELY

15. (SBU) In neighboring Tamil Nadu, where retail chains have grown more rapidly, the state government has said it is watching the developments in Kerala to decide future policy. Allies of the ruling DMK party, such as the PMK, have demanded that Tamil Nadu copy Kerala and ask local bodies to deny licenses to big retail outlets to save the livelihood of 600,000 small traders. A high-ranking Tamil Nadu bureaucrat told post the government is aware of the opposition to corporate involvement in the retail sector, but it does not have the authority to curb the commercial activity.

COKE'S EXPERIENCE: DISCRETION IN LOCAL HANDS DANGEROUS

16. (SBU) COMMENT: Kerala's healthy consumer market, which is fueled by remittances from expatriates in the Gulf and elsewhere, makes it a tempting target for corporate retailers. At the same time, the

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state has a tradition of leftist politics and a network of small retailers lobbying together under the banner of KVVES. Notwithstanding the media view that the talk of regulating retail is only rhetoric, there could be trouble ahead for corporate retailers if the leftists and KVVES win out and Kerala gives local government discretionary power to license corporate retailers. Coca Cola's experience demonstrates that local governments in Kerala are more than willing to use their discretionary powers to disrupt a company's operations for political reasons (reftels). On the other hand, businesses have little to fear from calls for Tamil Nadu to follow Kerala's lead as Tamil Nadu, with its generally business-friendly environment, is unlikely to turn too hostile to corporate retailers. END COMMENT.

HOPPER